

**STANISLAUS COUNTY CHILDREN  
AND FAMILIES COMMISSION**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2010**

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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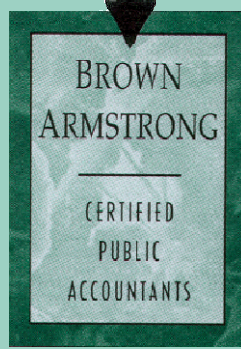
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**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION  
COMMISSION MEMBERSHIP  
AS OF JUNE 30, 2010**

<u>Name</u>	<u>Position</u>	<u>Original Appointment</u>	<u>Term Expires</u>
Vicki Bauman	School Representative	June 2005	August 2010
Vito Chiesa	Board of Supervisors	January 2009	December 2010
David Cooper	Community Representative <b>Chair</b>	September 2006	August 2012
Denise Hunt	Director, Behavioral Health and Recovery Services	February 2006	Permanent
Mary Ann Lee	Director, Health Services Agency <b>Vice-Chair</b>	November 2007	Permanent
Nelly Paredes-Walsborn	Community Representative	September 2004	August 2010
George Skol	Community Representative	June 2002	August 2011
Dan Souza	Community Representative	July 2005	August 2011
John Walker, MD	Health Officer	November 2000	Permanent

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the  
Stanislaus County Children and Families Commission  
Modesto, California

We have audited the accompanying financial statements of the governmental activities and general fund of the Stanislaus County Children and Families Commission, a component unit of the County of Stanislaus, as of and for the year ended June 30, 2010, which collectively comprise the County of Stanislaus Children and Families Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Stanislaus County Children and Families Commission management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

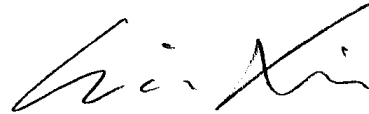
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Stanislaus County Children and Families Commission, as of June 30, 2010, and the respective changes in financial position, and the general fund budgetary comparison statement, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2010, on our consideration of the Stanislaus County Children and Families Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Stanislaus County Children and Families Commission's financial statements as a whole. The Stanislaus County Children and Families Commission membership and supplementary information section listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The Stanislaus County Children and Families Commission membership and supplementary information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



Bakersfield, California  
September 13, 2010

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2010**

This section of the Stanislaus County Children and Families Commission (Commission) annual financial report presents management's discussion and analysis of the Commission's financial performance for the fiscal year ended June 30, 2010. It is important to read this section in conjunction with the financial statements and notes in this audit.

FISCAL YEAR 2009-2010 FINANCIAL HIGHLIGHTS

During the 2009-2010 fiscal year, the Commission completed its 11<sup>th</sup> year of operations. As the Commission expended funds to implement its strategic plan, it also continued to implement a plan to spend down a reserve accumulated when the Commission first began operations. When the Commission was first created, provisions of law prevented expenditures from being made until specific activities were completed (adoption of a strategic plan, for example). Consequently, the highlights of the 2009-2010 fiscal year tend to reflect these efforts:

- Total revenues decreased approximately \$1,400,000 (16.7%) from 2009 to 2010 primarily due to fewer tobacco sales (due to an increase in federal tobacco taxes) and a reduction in interest earnings resulting from the downturn in the nation's economy.
- Commission expenditures decreased approximately \$181,000 (less than 2%) reflecting a stability in contractor expenditures and the elimination of funding for at least one program.
- As planned, the Commission's fund balance decreased approximately \$2,670,000 from 2009 to 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts:

- Basic financial statements, including government-wide and fund statements and notes to those statements.
- This discussion and analysis of the basic financial statements.

The Commission's financial statements offer key, high-level financial information about its activities.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances in a manner similar to a private sector business. These statements provide both long-term and short-term information about the Commission's overall financial status.

The statement of net assets includes information on all of the Commission's assets and liabilities with the difference between assets and liabilities reported as net assets. Changes in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of activities presents information showing how the Commission's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related and legal requirements. All of the Commission's activities are accounted for in one fund.

As a rule, governmental fund financial statements focus on near term inflows and outflows of spendable resources and on balances of spendable resources at the end of the fiscal year.

The Commission adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the adopted budget.

The Commission was created as an independent County agency by an ordinance of the Board of Supervisors, who acted under the authority of California State law. A nine member Commission appointed by the Board of Supervisors governs the Commission and authorizes expenditures. Consequently, the Stanislaus County Auditor's Office has designated the Commission as a County agency unit of local government and includes the Commission's basic financial statements in the County of Stanislaus' basic financial statements.

### CONDENSED FINANCIAL STATEMENTS

The following tables summarize the Commission's 1) Statement of Activities (change in net assets) and 2) Statement of Net Assets (government-wide financials). Both tables are summarized for the last three fiscal years.

	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Revenues</u>			
Program revenues	\$ 7,769,668	\$ 7,734,435	\$ 6,811,168
General revenues	<u>1,154,617</u>	<u>670,244</u>	<u>190,726</u>
Total revenues	8,924,285	8,404,679	7,001,894
<u>Total Expenditures</u>	<u>9,647,560</u>	<u>9,855,029</u>	<u>9,673,447</u>
Change in net assets	(723,275)	(1,450,350)	(2,671,553)
Beginning net assets	<u>21,413,292</u>	<u>20,690,017</u>	<u>19,239,667</u>
Ending net assets	<u>\$ 20,690,017</u>	<u>\$ 19,239,667</u>	<u>\$ 16,568,114</u>

Highlights of the above statement include:

- The Commission is continuing to follow its plan to reduce its reserves. (The Commission's stated policy is to maintain one year's worth of operating costs in its reserve.)
- Tobacco taxes, which make up a significant portion of the Commission's program revenue, are distributed according to a formula that considers the amount of tobacco purchased in the State and the number of live births in the County of Stanislaus. Tobacco taxes decreased between 2009 and 2010 due a decline in purchases resulting from an increase in federal excise taxes. Projections for future years anticipate further declines in tobacco tax revenues due to fewer smokers purchasing cigarettes.
- General revenues decreased due to lower investment earnings resulting from lower interest rates and reduced cash balance.
- Total expenses in this three year period were stable and reflected the Commission's efforts to position itself for three additional years of program support at current funding levels. At the end of three years, projections indicate the Commission will have reached its minimum reserve amount and adjustments to expenditures will be needed to balance expenditures and revenue.

	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Assets</u>			
Current assets	\$ 22,468,659	\$ 20,945,040	\$ 17,991,342
Capital assets, net	<u>8,089</u>	<u>6,386</u>	<u>4,683</u>
Total assets	<u>\$ 22,476,748</u>	<u>\$ 20,951,426</u>	<u>\$ 17,996,025</u>
<u>Liabilities</u>			
Current liabilities	\$ 1,753,673	\$ 1,668,940	\$ 1,373,355
Long-term liabilities	<u>33,058</u>	<u>42,819</u>	<u>54,556</u>
Total liabilities	<u>1,786,731</u>	<u>1,711,759</u>	<u>1,427,911</u>
<u>Net Assets</u>			
Invested in capital assets	8,089	6,386	4,683
Restricted net assets	<u>20,681,928</u>	<u>19,233,281</u>	<u>16,563,431</u>
Total net assets	<u>20,690,017</u>	<u>19,239,667</u>	<u>16,568,114</u>
Total liabilities and net assets	<u>\$ 22,476,748</u>	<u>\$ 20,951,426</u>	<u>\$ 17,996,025</u>

Highlights of the above statement include:

- Assets of the Commission decreased over time due to the planned expenditure of a portion of the Commission's fund balance.
- The relatively large number in Restricted Net Assets indicates that the Commission has allocated its reserves to specific future programs and initiatives.

#### OVERALL FINANCIAL POSITION

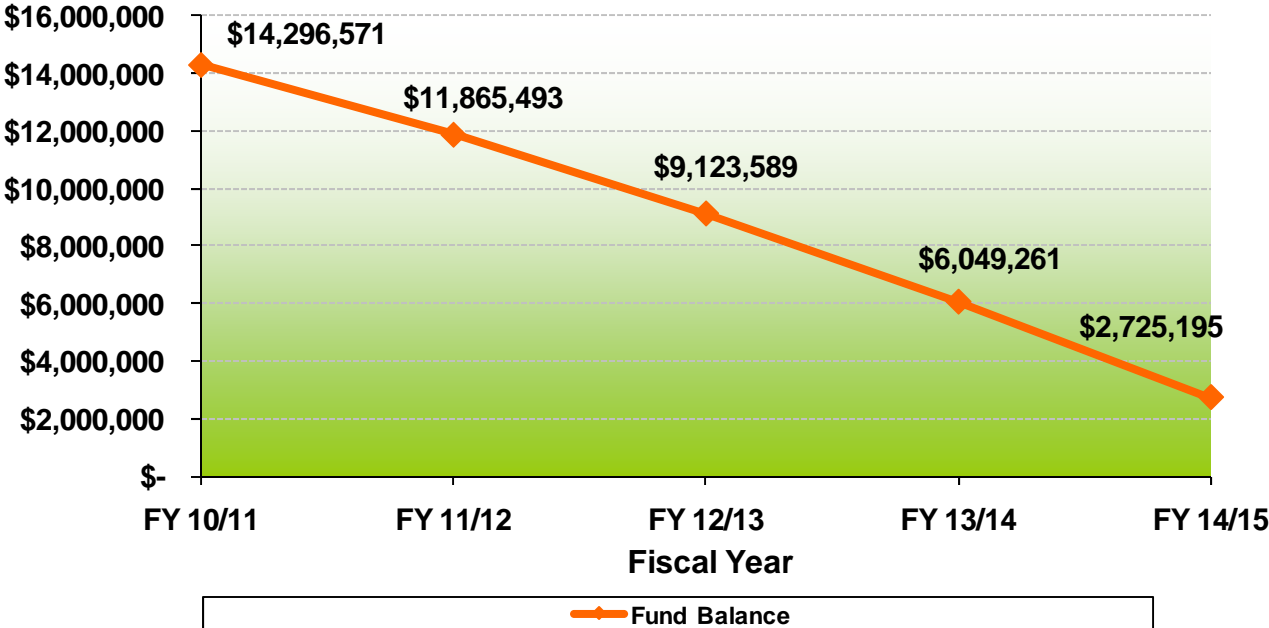
The vast majority of Commission revenues are generated from a \$.50 per pack tax on tobacco products that is collected by the State of California and distributed to California's 58 counties based on the percentage of live births in each county. Since the creation of the Commission in 1998, tobacco tax revenues have steadily declined an average of 1-2% per year as existing smokers quit smoking. This decline accelerated sharply in 2009-2010 when the federal government imposed higher taxes on tobacco. The increased cost of tobacco products caused users to quit smoking or purchase tobacco products where taxes are not collected (Indian reservations, for example). Although a continuing decline in tobacco tax revenues is expected in future years, the sharp decline noted in 2009-2010 is expected to be a one-time event and future revenue reductions are expected to be more in line with past years' experience.

With this being said, Commission revenues and expenditures are relatively stable and predictable. Unless the Legislature (through a 2/3's vote) changes the program or a proposition amending the Proposition 10 program is passed by the electorate, the outlook for Commission finances is relatively positive. The Commission has adopted a strategic plan that calls for the spending down of reserves in future years in a planned and controlled manner that will allow an orderly transition to a program that spends only what revenues are received in a year.

The Commission's current policy is to maintain one year's worth of operating costs in reserves. Unless this policy is amended, it is anticipated that program reductions will need to be made in approximately 3 years. The Commission's work to evaluate programs is designed to provide factual information that will allow for informed decisions to be made regarding program reductions.

A graphic representation of the Commission's plans to spend its reserves can be seen in the chart below. This chart, which is based on budgeted Commission expenditures and revenues in future years, was a part of the multi-year financial projections adopted by the Commission in May of 2010. These projections are made each spring and presented to the Commission as part of the development of the annual budget.

# Fund Balance Projections



ANALYSIS OF THE CHILDREN AND FAMILIES COMMISSION FUND

The Board of Supervisors’ ordinance establishing the Stanislaus County Children and Families Commission created a trust fund to record Commission revenues and expenditures. Because the Commission Proposition 10 program utilizes one fund for all its programs, this audit is somewhat unique as only one fund is examined from a “government-wide” and “fund” perspective.

As has been mentioned, for reasons previously cited, fund balance is decreasing as a result of a planned program to decrease the fund balance.

## BUDGET VERSUS ACTUAL VARIATIONS

The following table compares the original budget for the 2009-2010 fiscal year with the final budget. Both budgets can then be compared to actual expenditures for the year. It should be noted that these figures were developed according to modified accrual standards.

	Original Budget	Final Budget	Actual (GAAP Basis)	Variance with Final Budget
<b>Revenues</b>				
Proposition 10 - tobacco tax	\$ 6,500,000	\$ 6,500,000	\$ 5,955,259	\$ (544,741)
School readiness grant	800,908	800,908	747,437	(53,471)
School readiness implementation	100,000	100,000	100,000	-
Retention incentive	30,000	30,000	3,221	(26,779)
Surplus money investment fund	-	-	4,102	4,102
Investment earnings	570,000	570,000	190,726	(379,274)
Miscellaneous revenue	-	-	1,149	1,149
<b>Total revenues</b>	<b>8,000,908</b>	<b>8,000,908</b>	<b>7,001,894</b>	<b>(999,014)</b>
<b>Expenditures</b>				
Contracts	9,668,051	9,668,051	8,534,421	1,133,630
Evaluations	157,006	157,006	156,176	830
Salaries and employee benefits	769,537	769,537	669,466	100,071
Services and supplies	225,674	225,674	299,944	(74,270)
<b>Total expenditures</b>	<b>10,820,268</b>	<b>10,820,268</b>	<b>9,660,007</b>	<b>1,160,261</b>
<b>Net change in fund balance</b>	<b>\$ (2,819,360)</b>	<b>\$ (2,819,360)</b>	<b>(2,658,113)</b>	<b>\$ 161,247</b>
Fund balance - beginning of year			<u>19,276,100</u>	
Fund balance - end of year			<u>\$ 16,617,987</u>	

Highlights of the above statement include:

- The Final 2010 budget estimated approximately \$1,000,000 more in revenues than was received. This was primarily due to a decrease in tobacco sales (due to a higher federal tax) and lower interest earnings (due to lower than anticipated interest rates and a smaller cash balance).
- Some of the underspending in the Contracts line item in 2010 is due to:
  - o Maximization of State funding sources through the referral of clients to State services and enhanced billing to the Medi-Cal program (Healthy Cubs program).
  - o A Contingency for Contract Adjustments line item was not used.
- Salaries and Employee Benefits are underspent due to an authorized position being filled only part of the 2009-2010 fiscal year.
- Actual expenditures in the Services and Supplies category exceeded budgeted amounts when 2008-2009 encumbered expenses for support services for children 0-5 and their families were paid in 2009-2010.

## CAPITAL ASSETS AND LONG-TERM DEBT

The Commission's Funds Invested in Capital Assets line item has decreased by \$1,703 as the value of financed office equipment (the copier, for example) has been depreciated. The increase in long-term liabilities of \$11,737 is due to an increase in compensated absences.

## CURRENTLY KNOWN CONDITIONS

The following are facts, decisions, and conditions that could potentially have a significant impact on Commission finances:

- The Commission will be reviewing its strategic plan in 2011 with an emphasis on designing a significantly reduced program when the reserve minimum amount is reached. Without a change in reserve policies, current estimates indicate the useable reserve will be exhausted in mid-2013. A new strategic plan may change future scopes of work for contractors and will serve as a guide for evaluating program operations and future proposals.
- In May of 2009, voters defeated an initiative that would have diverted more than half of the Commission's Proposition 10 revenue stream to the State General Fund. Forecasts of State revenues for the next few years continue to show weak performance by nearly all revenue sources. In response, the Legislature could place another initiative on the ballot transferring some or all of local Proposition 10 revenues to the State. Depending on the wording of a proposition adopted by voters, Commission revenues could be significantly impacted.
- The shortfall in the State's budget has resulted in decreased funding for the Community Services Agency (a major partner in one of the Commission's primary initiatives – the family resource center project). The loss of Community Services Agency funding has resulted in a decrease in the level of services provided at family resource centers. Further State reductions to the Community Services Agency could result in more Commission funds being allocated to the project.
- The continuing inability of the State of California to adopt a timely and balanced budget has caused uncertainty in the local social service community. Depending on the budget reductions implemented by the State, the Commission may receive unsolicited and unexpected funding requests to supplement local social services provided to the 0-5 population.

## ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for those with an interest in the Commission's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director of the Stanislaus County Children and Families Commission, 930 15th Street, Modesto, CA 95354.

## **BASIC FINANCIAL STATEMENTS**

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

**ASSETS**

Cash in County treasury	\$ 16,880,942
Due from other agencies	1,051,988
Interest receivable	58,412
Capital assets, net	<u>4,683</u>
 Total assets	 <u><u>\$ 17,996,025</u></u>

**LIABILITIES**

Accounts payable	\$ 1,355,160
Salaries and benefits payable	18,195
Long-term liabilities, compensated absences	<u>54,556</u>
 Total liabilities	 <u>1,427,911</u>

**NET ASSETS**

Invested in capital assets	4,683
Restricted net assets - children's programs	<u>16,563,431</u>
 Total net assets	 <u>16,568,114</u>
 Total liabilities and net assets	 <u><u>\$ 17,996,025</u></u>

The accompanying notes are an integral part of these financial statements.

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) and Revenues and Change in Net Assets  Governmental Activities
Governmental activities:			
Child development services	\$ 9,673,447	\$ 6,811,168	\$ (2,862,279)
Totals	\$ 9,673,447	\$ 6,811,168	(2,862,279)
		General revenues:	
		Interest and investment earnings	190,726
		Total general revenues	190,726
		Change in net assets	(2,671,553)
		Net assets beginning of year	19,239,667
		Net assets end of year	\$ 16,568,114

The accompanying notes are an integral part of these financial statements.

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2010**

	<u>General Fund</u>
<b><u>ASSETS</u></b>	
Cash in County treasury	\$ 16,880,942
Due from other agencies	1,051,988
Interest receivable	<u>58,412</u>
Total assets	<u><u>\$ 17,991,342</u></u>
<b><u>LIABILITIES</u></b>	
Accounts payable	\$ 1,355,160
Salaries and benefits payable	<u>18,195</u>
Total liabilities	<u>1,373,355</u>
<b><u>FUND BALANCE</u></b>	
Reserved	
Approved contracts not yet executed	9,709,234
Reserved for First 5 California Initiatives	331,250
Reserved for encumbrances	<u>579,356</u>
Total reserved	10,619,840
Unreserved undesignated	<u>5,998,147</u>
Total fund balance	<u>16,617,987</u>
Total liabilities and fund balance	<u><u>\$ 17,991,342</u></u>
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Assets	
Total fund balance	\$ 16,617,987
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund (net of accumulated depreciation of \$12,346).	4,683
Compensated absences (long-term liabilities) are not due in the current period and, therefore, are not included in the fund.	<u>(54,556)</u>
Total net assets - governmental activities	<u><u>\$ 16,568,114</u></u>

The accompanying notes are an integral part of these financial statements.

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund
Revenues	
Proposition 10 - tobacco tax	\$ 5,955,259
School readiness grant	747,437
School readiness implementation	100,000
Retention incentive	3,221
Surplus money investment fund	4,102
Investment earnings	190,726
Miscellaneous revenue	1,149
Total revenues	7,001,894
Expenditures	
Contracts	8,534,421
Program evaluation	156,176
Salaries and employee benefits	669,466
Services and supplies	299,944
Total expenditures	9,660,007
Net change in fund balance	(2,658,113)
Fund balance - beginning of year	19,276,100
Fund balance - end of year	\$ 16,617,987
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	
Net change in fund balance - governmental fund	\$ (2,658,113)
Governmental fund reports capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$1,703) exceeded capital outlays (\$0) in the current period.	(1,703)
Compensated absences (long-term liabilities) are not due during the current year and, therefore, are not recorded in the governmental fund. This is the amount by which compensated absences increased in the current period.	(11,737)
Change in net assets - governmental activities	\$ (2,671,553)

The accompanying notes are an integral part of these financial statements.

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (GAAP)  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2010**

	Original Budget	Final Budget	Actual (GAAP Basis)	Variance with Final Budget
<b>Revenues</b>				
Proposition 10 - tobacco tax	\$ 6,500,000	\$ 6,500,000	\$ 5,955,259	\$ (544,741)
School readiness grant	800,908	800,908	747,437	(53,471)
School readiness implementation	100,000	100,000	100,000	-
Retention incentive	30,000	30,000	3,221	(26,779)
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<b>Expenditures</b>				
Contracts	9,668,051	9,668,051	8,534,421	1,133,630
Evaluations	157,006	157,006	156,176	830
Salaries and employee benefits	769,537	769,537	669,466	100,071
Services and supplies	225,674	225,674	299,944	(74,270)
<b>Total expenditures</b>	<b>10,820,268</b>	<b>10,820,268</b>	<b>9,660,007</b>	<b>1,160,261</b>
<b>Net change in fund balance</b>	<b><u>\$ (2,819,360)</u></b>	<b><u>\$ (2,819,360)</u></b>	<b>(2,658,113)</b>	<b><u>\$ 161,247</u></b>
Fund balance - beginning of year			<u>19,276,100</u>	
Fund balance - end of year			<u><u>\$ 16,617,987</u></u>	

The accompanying notes are an integral part of these financial statements.

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The Stanislaus County Children and Families Commission (Commission) was established on December 8, 1998, pursuant to Health and Safety Code §130140. The Commission was also established in accordance with the provisions of the California Children and Families First Act of 1998 and by the County of Stanislaus Ordinance #1014. The Commission is funded by surtaxes imposed on the sale of cigarettes and tobacco products. The nine members (as amended by Ordinance #1030) of the Commission are appointed by the County of Stanislaus Board of Supervisors.

The Commission is responsible for the creation and implementation of a comprehensive, collaborative, and integrated system of information and services to enhance early childhood development. Services to enhance early childhood development include the School Readiness and the Comprehensive Approaches to Raising Education Standards (CARES) programs.

The financial statements included in this report are intended to present the financial position and results of operations of only the Commission. They are not intended to present the financial position and the results of operations of the County of Stanislaus taken as a whole. For additional information regarding the County of Stanislaus, please refer to the audited financial statements available from the County of Stanislaus.

B. Basis of Presentation and Accounting

The financial statements of the Commission are prepared on the basis of Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments* and related standards. GASB Statement Number 34 established standards for external financial reporting for all state and local government entities which includes a management’s discussion and analysis section, a statement of net assets, a statement of activities, and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted.

Government-Wide Statements

The Commission’s government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities for the Commission.

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Commission’s assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### **B. Basis of Presentation and Accounting** (Continued)

#### Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the government-wide financial statements. The Commission only has one fund, the General Fund. The General Fund is the Commission's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the Commission.

All governmental fund types are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are recognized when received in cash, except that revenues subject to accrual, generally 180 days after year-end, are recognized when due. Expenditures are recognized in the accounting period in which the related fund liability is incurred. When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then unrestricted resources as they are needed.

#### Adjustments Between Fund Financial Statements and Government-Wide Financial Statements

The government-wide financial statements were adjusted from the modified accrual basis of accounting used on the fund financial statements to the accrual basis of accounting used for the government-wide financial statements. These adjustments included expenses for depreciation during the year related to capital assets and compensated absence obligations.

#### Non-Exchange Transactions

A non-exchange transaction consists of a government giving or receiving value without directly receiving or giving equal value in return. These transactions include income taxes, sales taxes, property taxes and fines, certain grants, and private donations. Recognition of sales taxes or derived tax revenue transactions assume accrual basis of accounting, per GASB Statement Number 33, except where indicated for revenue recognition.

### **C. Budgets and Budgetary Accounting**

The Commission prepares and legally adopts a final budget on or before August 30<sup>th</sup> of each fiscal year. The Commission operation, commencing July 1<sup>st</sup>, is governed by the proposed budget, adopted by the Board of Commissioners in the June of the prior year.

After the budget is approved, the appropriations can be added to, subtracted from or changed only by Commission resolution. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Commission.

An operating budget is adopted each fiscal year on the modified accrual basis. Additionally, encumbrance accounting is utilized to assure effective budgetary control.

Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year-end are completed or purchase commitments satisfied. Such year-end encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year and included in the subsequent year's budget. Unencumbered appropriations lapse at year-end.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. Due from Other Agencies

These amounts represent receivables from other governments or contractors. As of June 30, 2010, the Commission was due \$1,051,988 from the State of California and \$58,412 in interest revenues. Management believes its receivables to be fully collectible, and accordingly, no allowance for doubtful accounts is required.

E. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of the asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Equipment – 10 years

F. Compensated Absences – Vacation and Sick Leave

Commission employees earn vacation and sick leave with pay every year. The amount of vacation and sick leave earned is based on the years of continuous service.

After at least six months of County service, most regular employees, upon separation, are entitled to all unused vacation time accumulation. Most regular employees are entitled to a portion of accumulated sick leave after six years of service, depending on age, years of service, and bargaining unit.

At the close of each fiscal year, the balance of this accumulated time at the last pay period is computed for each employee at the current salary range. In the financial statements, these amounts are referred to a “Compensated Absences.”

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 – CASH AND INVESTMENTS**

The Commission’s cash is invested in the County of Stanislaus cash and investment pool. The County of Stanislaus cash and investment pool is invested in accordance with California State Government Code Section 53600. In addition, the cash and investment pool is further restricted to those investments deemed acceptable per the investment policy guidelines prepared by the County Treasurer and approved by the Board of Supervisors of the County of Stanislaus.

Cash and investments held as of June 30, 2010, were invested in certificate of deposits, commercial paper, money market funds, federal notes, treasury notes and bills, corporate notes, and an external investment pool.

**NOTE 2 – CASH AND INVESTMENTS** (Continued)

Interest earned on the cash and investment pool is apportioned on a quarterly basis. Per GASB Statement Number 31, investment losses and gains are recorded at market value on the Statement of Net Assets and as income for the period. The changes resulting from investment losses and gains are shared by the various participants of the pool. For further information regarding the cash and investment pool, the audit report of the County of Stanislaus may be obtained by writing the County of Stanislaus, 1010 10<sup>th</sup> Street, Suite 5100, Modesto, CA 85354.

Cash and investment balances as of June 30, 2010, are as follows: \$ 16,880,942

**NOTE 3 – CHANGES IN CAPITAL ASSETS**

The following is a summary of changes in the capital assets for the year ended June 30, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Equipment	\$ 17,029	\$ -	\$ -	\$ 17,029
Less accumulated depreciation	<u>(10,643)</u>	<u>(1,703)</u>	<u>-</u>	<u>(12,346)</u>
Total	<u>\$ 6,386</u>	<u>\$ (1,703)</u>	<u>\$ -</u>	<u>\$ 4,683</u>

Depreciation expense for the year ending June 30, 2010, was \$1,703.

**NOTE 4 – ECONOMIC DEPENDENCY**

The Commission received the majority of its funding from one source, taxes imposed by Section 30131.2 of the California Tax and Revenue Code. This code imposes additional taxes on the sale of cigarettes and tobacco products. The total amount of funding from the additional taxes was \$6,805,917 or 97.2% of total revenue for the year ending June 30, 2010. The Commission is thus subject to possible risk of reductions in services and/or closure due to potential future changes to Section 30131.2 of the California Tax and Revenue Code.

**NOTE 5 – GOVERNMENT-WIDE STATEMENTS, NET ASSETS – CLASSIFICATIONS**

The classification of net assets into three components, invested in capital assets, net of related debt; restricted; and unrestricted, is required by GASB Statement Number 34. These classifications are defined as follows:

Net Assets Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets.

Restricted Net Assets – Consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislations.

Unrestricted Net Assets – Consists of funds which are undesignated and available for general operations.

## **NOTE 6 – FUND FINANCIAL STATEMENTS, FUND BALANCES**

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent management plans that are subject to change. Fund balances have been reserved for the following purposes:

Approved Contracts Not Yet Executed represent amounts that the Commission has authorized and entered into an agreement, but the contract has not been executed.

Reserved for First 5 California Initiatives represent future matching amounts by the Commission to guarantee investment by the First 5 California Commission.

Reserved for Encumbrances represent amounts obligated under purchase orders, contracts, or other commitments for expenditure that are being carried forward to the ensuing fiscal year.

## **NOTE 7 – COMMITMENTS**

Operating Lease, Building – The Commission entered into a building lease agreement to house the operations of the Commission at 930 15<sup>th</sup> Street, Modesto, California. The lease commenced on December 7, 2005, and will terminate on December 6, 2010. The lease has an option to renew for an additional three years at the end of the first lease period. Monthly lease payments are \$4,000 for the first 36 months and \$4,400 for the remaining 24 month period. Lease expense for the year ending June 30, 2010, was \$52,800.

Operating Lease, Copier – The Commission entered into a lease agreement for use of copier equipment from Mo-Cal Office Solutions. The lease commenced on May 31, 2007, and will terminate on May 31, 2012. The lease has an option to purchase the equipment for fair market value, return the equipment or renew for successive month to month terms at the end of first lease period. Monthly lease payments are \$308 for 60 months. Lease expense for the year ending June 30, 2010, was \$3,968.

Future minimum payments for the years ending June 30<sup>th</sup> are as follows:

	<u>2011</u>	<u>2012</u>	<u>Total</u>
Building lease	\$ 22,000	\$ -	\$ 22,000
Copier lease	3,696	3,388	7,084
Total	<u>\$ 25,696</u>	<u>\$ 3,388</u>	<u>\$ 29,084</u>

## **NOTE 8 – RISK MANAGEMENT**

The Commission is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission participates in the County of Stanislaus risk management insurance. Insurance covered under the County of Stanislaus' risk management includes general liability, unemployment, worker's compensation, professional liability, health insurance, and other benefits.

No claims were outstanding during the year under audit ending June 30, 2010. Audit reports of the County of Stanislaus listing further details of the County of Stanislaus' insurance coverage may be obtained by writing the County of Stanislaus, 1010 10<sup>th</sup> Street, Suite 5100, Modesto, CA 95354.

**NOTE 8 – RISK MANAGEMENT** (Continued)

Risk management expenditures during the fiscal year are as follows:

	<u>2010</u>
General liability insurance	\$ 856
Unemployment insurance	540
Health insurance	89,319
Other insurance	<u>1,405</u>
Total risk management expenditures	<u>\$ 92,120</u>

**NOTE 9 – EMPLOYEE RETIREMENT SYSTEM**

The Commission's employees participate in the County of Stanislaus retirement system. The County of Stanislaus is a major participant of the Stanislaus County Employee Retirement Association (StanCERA). StanCERA was established under the County Retirement Act of 1937 under California State Government Code Section 31450. StanCERA is a cost-sharing multiple-employer public employee retirement system.

Membership to StanCERA is required of all full-time employees and permanent part-time (50% or more of the regular hours) on the first day of employment. Employees eligible for retirement benefits are vested after 5 years of service except for Plan 3 which requires 10 years of service. Employees who have reached the age of 50 or employees with 30 years of service, regardless of age, are eligible to retire. Benefits are calculated as a percentage of the employee's monthly final average salary per year of service, depending upon age of retirement. An independent actuary provides an actuarial valuation of the system, annually.

In addition to the retirement benefits, StanCERA provides post employment benefits which include medical, dental, and vision insurance along with death benefits for eligible retirees. These benefits are funded from excess earnings of StanCERA. The County of Stanislaus does not contribute to these post employment benefits. The Board of Retirement may eliminate the benefit by giving 90 days notice to retirees.

For further information regarding the retirement system and to obtain audit reports of StanCERA, write to PO Box 3150, 832 12<sup>th</sup> Street, Suite 600, Modesto, CA 95353.

Retirement and post employment benefit expenditures during the fiscal year ended June 30, 2010, were \$59,144.

**NOTE 10 – RELATED PARTY TRANSACTIONS**

During the fiscal year ended June 30, 2010, the Commission paid the County of Stanislaus, a related party, \$3,340,208 for the following costs: \$82,393 in accounting, legal and administrative services and \$3,257,815 for program services. The Commission is a special revenue fund of the County of Stanislaus.

During the fiscal year ended June 30, 2010, the Commission incurred expenses to Turlock Unified School District, a related party, of \$396,117 for funding a School Readiness Program. As of June 30, 2010, a balance of \$171,269 was due and payable to Turlock Unified School District for services rendered. Mr. John Sims, Executive Director of the Commission, is also a member of the Turlock High School Board of Trustees.

**NOTE 11 – SECTION 30131.4 OF THE CALIFORNIA TAX AND REVENUE CODE CERTIFICATION**

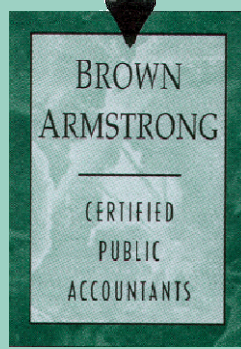
The Commission has certified that the supplant requirement stated in Section 30131.4 of the California Tax and Revenue Code has been met.

**NOTE 12 – PROGRAM EVALUATION**

The Commission spent \$316,497 on program evaluation during fiscal year ended June 30, 2010, which consisted of \$150,746 in contracted School Readiness Program evaluation and \$165,751 of Commission salaries, benefits, services, and supplies based on time study allocations.

## **COMPLIANCE SECTION**

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Burton H. Armstrong, CPA, MST  
Andrew J. Paulden, CPA  
Steven R. Starbuck, CPA  
Chris M. Thornburgh, CPA  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners of the  
Stanislaus County Children and Families Commission  
Modesto, California

We have audited the financial statements of the governmental activities and general fund of the Stanislaus County Children and Families Commission, a component unit of the County of Stanislaus, as of and for the year ended June 30, 2010, which collectively comprise the Stanislaus County Children and Families Commission's basic financial statements and have issued our report thereon dated September 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Stanislaus County Children and Families Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Stanislaus County Children and Families Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Stanislaus County Children and Families Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

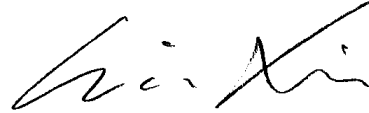
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Stanislaus County Children and Families Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

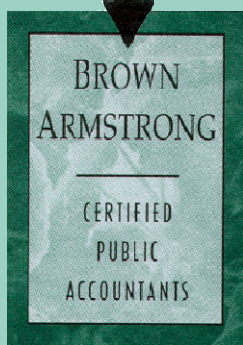
This report is intended solely for the information and use of the County Board of Supervisors, the County Commission, the State Commission, the State Controller's Office, federal agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "G. A. Armstrong", is positioned below the company name.

Bakersfield, California  
September 13, 2010

Peter C. Brown, CPA  
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## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

To the Board of Commissioners of the  
 Stanislaus County Children and Families Commission  
 Modesto, California

We have audited the financial statements of the Stanislaus County Children and Families Commission, a component unit of the County of Stanislaus, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 13, 2010.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of California Counties Participating in the First 5 Program*, issued by the State Controller's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Stanislaus County Children and Families Commission's management is responsible for the the Stanislaus County Children and Families Commission's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Stanislaus County Children and Families Commission's compliance with the laws and regulations applicable to the following items:

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Contracting and Procurement	6	Yes
Administrative Costs	3	Yes
Conflict of Interest	3	Yes
County Ordinance	4	Yes
Long-Range Financial Plans	2	Yes
Financial Condition of the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and Benefit Policies	2	Yes

Based on our audit we found that, for the items tested, the Stanislaus County Children and Families Commission complied with the laws and regulations of the items referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Commission had not complied with the laws and regulations of the First 5 Program.

This report is intended solely for the information and use of the County Board of Supervisors, the County Commission, the State Commission, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



Bakersfield, California  
September 13, 2010

**SUPPLEMENTARY INFORMATION**

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
BY FUND SOURCE OF CCFC FUNDS FOR FIRST 5 PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)**

	School Readiness	Retention Incentive (CARES Program)	Other Programs	Total All Programs 2010	Total All Programs 2009
<b>Revenues</b>					
Proposition 10 - tobacco tax	\$ -	\$ -	\$ 5,955,259	\$ 5,955,259	\$ 6,589,965
School readiness grant	747,437	-	-	747,437	854,762
School readiness implementation	100,000	-	-	100,000	100,000
Retention incentive	-	3,221	-	3,221	189,708
Surplus money investment fund	-	-	4,102	4,102	16,275
Investment earnings	-	-	190,726	190,726	653,969
Miscellaneous revenue	-	-	1,149	1,149	-
<b>Total revenues</b>	<b>847,437</b>	<b>3,221</b>	<b>6,151,236</b>	<b>7,001,894</b>	<b>8,404,679</b>
<b>Expenditures</b>					
Contracts	1,445,605	706,882	6,381,934	8,534,421	8,703,452
Program evaluation	150,746	-	5,430	156,176	144,479
Salaries and employee benefits	100,000	-	569,466	669,466	652,151
Services and supplies	-	-	299,944	299,944	343,483
<b>Total expenditures</b>	<b>1,696,351</b>	<b>706,882</b>	<b>7,256,774</b>	<b>9,660,007</b>	<b>9,843,565</b>
<b>Net change in fund balance</b>	<b>\$ (848,914)</b>	<b>\$ (703,661)</b>	<b>\$ (1,105,538)</b>	<b>(2,658,113)</b>	<b>(1,438,886)</b>
Fund balance - beginning of year				19,276,100	20,714,986
Fund balance - end of year				<b>\$ 16,617,987</b>	<b>\$ 19,276,100</b>

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION  
SCHEDULE OF EXPENDITURES BY FUND SOURCE AND NET ASSETS  
OF CCFC FUNDS FOR FIRST 5 PROGRAMS AND ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

		REVENUES CCFC Funds	EXPENDITURES	CHANGE IN NET ASSETS	NET ASSETS Beginning of Year	NET ASSETS End of Year
School Readiness Program	CCFC Program Funds	\$ 747,437	\$ 798,176	\$ (50,739)	\$ 141,378	\$ 90,639
	County, Local Funds		\$ 798,176			
SR Implementation	CCFC Program Funds	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ -
CARES (1)	CCFC Program Funds	\$ 3,221	\$ 3,221	\$ -	\$ -	\$ -
	County, Local Funds		\$ 703,660			
<b>TOTAL CCFC FUNDS</b>		<b>\$ 850,658</b>	<b>\$ 2,403,233</b>	<b>\$ (50,739)</b>	<b>\$ 141,378</b>	<b>\$ 90,639</b>

(1) CCFC reimburses a specified portion of program expenditures.